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economic study on the reorientation  
of the economic policy of the USSR

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A Reorientation of the Economic Policy of the USSR.

(Middle of December, 1957)

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1. Introduction.

- 1.1. The cancellation of the 6th Five-year Plan (for the first time in USSR in peacetime) and the re-organization of planning and industrial administration (the "decentralization") have been the principal economic events of the year in Soviet politics.

Krushchev's speech of 6th November, 1957, in which were announced a number of quotas for the coming 15 years, is no less remarkable, however, as it reflects a considerable slow-down in the rate of growth in all the industries dealt with.

In the following these figures will be taken up for further consideration - in isolation as well as in the light of other recent events - in order, if possible, to deduct ~~any~~ indications for the future evolution in Russia.

- 1.2. In less than a year after the adoption of the 6th Five-year Plan the first statements of the necessity of a revision of the Plan were made. However, this was never carried into effect. The rather remarkable step of entirely abandoning the Plan and replacing it with a new one - a Seven-year Plan - running from 1959 to 1965 - was taken instead. The question of the background and significance of this step is discussed in para 2.
- 1.3. The first presage of the contents of the new plan (and the alterations to be made relative to the old one) was given out in Krushchev's speech on November 6th, 1957, together with a number of figures indicative of the production level in the USSR in 15 years' time. In para 3, and in the appended diagrams, these figures are analysed and commented upon.
- 1.4. The question of what can be inferred from these events and these figures is analysed and commented upon in para 4, and on this background the problem is discussed whether it is correct to talk about a re-orientation of the Soviet economic policy.
- 1.5. The chief conclusions reached have been summed up in para 5.

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2. The background of the cancellation of the Five-year Plan and the reorganization.

- 2.1. Already at the commencement of the 6th Five-year Plan it was declared by western experts to be unrealistic. And truly enough, hardly a year had elapsed, when the first mention of a necessary revision was made. The first manifestation of the changes appear in the second year-plan (for 1959) which, in a great many spheres, reckons with rates of growth a good deal below those assumed in the Five-year Plan.

At the same time appeared the plan for the expansion of agricultural production (first and foremost of animal production) and the reorganization of the economic system - the planning-control apparatus - on a regional basis.

Instead of effecting a revision of the current Five-year Plan, however, the notable step was taken of cancelling it and starting preparation for a new Seven-year Plan (1959-65). Concerning the motives for adopting a period of 7 instead of 5 years the following observations would seem appropriate: In the first place there is no magic significance attached to figure 5, so the change does not in itself require an explanation, and secondly, there is good reason to conclude the period of the plan in the year 1965. Thus is again obtained a plan period concurrent with those of the Satellite countries (something achieved for the first time in 1955), a fact which has no little importance for the extent of the commercial relations and their inclusion in the solution of allocation problems. A further advantage obtained is the gaining of sufficient time for careful preparation of the new Plan, which apparently requires so great changes, that a revision within the frames of the old Plan has proved too difficult and furthermore there will be time for overcoming the effects of certain (partial) stagnation tendencies.

- 2.2. The cancellation of the Five-year Plan has been much commented on both by western and eastern experts, and more or less plausible theories have been advanced to explain the reasons for it, although a proper evaluation of its significance for the future, economic and political, course of events is a difficult undertaking so long as the new Plan has not been published - and this will happen at the earliest in the autumn of 1958 - a good deal may be said already at this juncture.

- 2.3. The Russians put the emphasis of their official explanation on the circumstance that the change of plan was made necessary by the discovery of new raw material sources of an extent which constitutes a basis for the establishment of entirely new industrial communities, a process which required a period of planning far exceeding the year 1960 and by the reorganization, which called for a complete remoulding of the plans into a regional (territorial) pattern.

Perhaps another and certainly, in our view, no less important reason is to be found in the circumstance that the Plan was unrealistic in the sense that investments were wrongly distributed among

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the basic industries, so that bottlenecks in production soon arose in a great many fields - either directly or indirectly, through feed-back effects. A clear indication of this is Krushchev's emphasizing the necessity of building up larger stocks (which are first of all to operate as buffer-stocks, a certain margin for "shortcomings" of course being required in any kind of planning). The vigorous debate which took place between the various ministries in Moscow prior to the adoption of the 6th Five-year Plan, on the necessary size of investments in each sector, has thus resulted in a wrong allocation, which has had the rather serious effect of disrupting the harmony of growth among the various sectors. In a certain sense thus we may say that an investment crisis has arisen. One reason why this crisis has become so relatively serious probably lies in the fact that a great many investments were commenced simultaneously (at the beginning of the plan period), and this immediately resulted in heavy fluctuations in the demand, first of all for building raw materials such as concrete, steel, etc.

2.4. Other (and, in our opinion, less significant comments) also agree that the 6th Five-year Plan was unrealistic, or perhaps rather that it was too ambitious, so that the cancellation was due to difficulties in mobilizing the necessary resources. In this argumentation the following points are frequently stressed:

1. The growing importance of reinvestments.
2. The slow accession of labour in consequence of the low birth-rate of the war years.
3. The aid to Hungary, Poland and the underdeveloped countries.
4. Difficulties in expanding the raw material production (inferior quality and growing difficulties of access).
5. Large increases (planned and/or required) of agricultural production and housebuilding,

together with a series of other less essential points.

Although, taking the long view, these arguments are of course of primary significance for the attainable rate of growth (see below) they cannot in themselves be regarded as sufficiently accounting for an acute crisis. Further, a number of not entirely trifling counter arguments are being put forward: the problem represented by a low birth-rate in certain years is of limited duration, new raw material sources are frequently discovered, the rising living standard plus the gradual reduction of working hours (to 41 hours a week) makes possible an increased work effort.

However, it should be kept in mind that the greatest increases in productivity are obtained through improved technique (i.e. the application of comparatively more real capital and improvements in education) and not least through better work planning and wage systems promoting productivity. Automation should also be mentioned in this connexion although, seen in its relations to the shortage of labour, it can have real significance only in the long run as it

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lays imperative claim to highly qualified technically and economically trained personnel both in the management of enterprises and in central planning.

- 2.5. A certain light is thrown on the problems at present reigning in Russian planning by the apparently rather drastic reorganization of administration which shifts the weight from Union to regional basis, that is to say from vertical to horizontal integration, under which only the long-term planning (the Five-year Plan) is centralized, while the year-to-year planning is decentralized down to regional basis. This reorganization of course demands greater detail and accuracy in the five-year plans while these must at the same time be specified according to regions instead of ministries.

For enterprises, the decentralization spells a considerable relief. The amount of paper involved must needs be less and the flow of business organisation quicker now that the top of the organization pyramid is more easily reached. There is, however, no reason to assume that the body of administrative personnel will diminish, but the new division of labour is bound to result in a higher degree of flexibility. Against this it must be stressed, however, that while formerly there was a tendency towards a policy of autarky within the separate ministries, there is now, in consequence of the reorganization, a risk of a policy of autarky arising within the regions, so that the advantages of the distribution of work are not fully exploited.

Finally, it is probably of no small importance that the reorganization is prompted by political motives, as it gives greater power to the Party by delegating a share of the power to regional leaders.

Further, the reorganization has an interesting aspect in that between regions a cooperation must take place which may come to be characterized as inter-regional trade, if some time in the future prices, when being fixed regionally, are included in the organizational system. The reorganization may thus conceivably represent the first step towards the policy of taking account of market mechanism, in connexion with allocation problems, and thus be an approach to the economic system of the West (cf. the development in Poland).

This, of course, is only put forward as a possibility. But we may say with greater certainty that the reorganization will have a number of consequences which cannot yet be weighed - not even by Moscow. This is an experiment, but one which may have significant implications, as one realizes when considering that time has out-paced the assumptions laid down in the theories - one reason for this being the very application of the theories.

- 2.6. The cancellation of the Five-year Plan and the reorganization, if viewed in their mutual relationship, clearly show that the difficulties facing the central administration (the GOS Plan) are now so great that radical changes are called for. On the other hand, 50X1-HUM

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these difficulties should not rashly be interpreted as representing an overestimation of the potentialities of Soviet economic expansion.

To illustrate this point we may take the figures in Table 2.1. which show that, altogether, industrial production kept the rate bargained for, while investments, transport and retail turnover exceeded the planned rate of growth somewhat. Thus it would seem unwarrantable to claim categorically that the investment level as a whole has been too low or, in other words, that the resources have been shifted from investments to consumer goods. On the other hand a number of important items of the investment goods production are lagging a good deal behind.

Table 2.1. The development of production in 1956 and the first half of 1957, in per cent. of the production of the previous year, compared with the rate of growth of the Five-year Plan.

	1956	First half of 1957	Annual average of Five-year Plan
Industrial production	111	110	110,5
Investments	117	112	111
Transport (by railway)	111	115	107,3
Retail turnover	109	116	108,5
Industrial productivity	107	106	108,5
Production of certain investment goods			
Machine tools	104	104	114
Metallurgical industry equipment	103	90	110
Chemical industry equipment	98	107	113
Petroleum industry equipment	101	106	119,5
Electric engines	115	99	119,5
Motor-cars	104	108	107,5

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3. The latest Plan figures relating to the development in the coming 15 years.

- 3.1. In his speech of November 6th, 1957, Krushchev announced forecasts for the production of some selected goods some fifteen years ahead. The average annual rate of growth for this period (1958-72) are shown in the case of these goods in Table 3.1. with the addition of the figures representing the development in recent years and the forecasts of the 6th Five-year Plan now abandoned.

Table 3.1. Average rates of growth for production of selected goods in the USSR, measured in physical units.

per cent.	1950-55	55-56	56-57	forecasts 55-60	Krushchev 57-72
Coal	8,4	10	8	8,7	2,3-3,3
Petroleum	13,3	18	17	13,8	8,9-9,8
Natural gas	10,9	32	..	31,2	about 19-20
Electric power	13,3	13	9	13,5	9,2-10,2
Steel	10,7	7	5	8,6	4,7-5,9
Concrete	17,2	11	16	19,6	7,9-8,6
Woollen fabrics	8,4	6	..	7,7	4,7-5,8
Footwear	6,2	5	0	8,7	4,4-5,5
Sugar	7,0	11,5		11,4	4,7-5,5

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- 3.2. The absolute production figures in 1950 and 1955 and the 1960 and 1972 forecasts plus the corresponding figures for production in the United States in 1955 are shown in Table 3.2.

Table 3.2. Production of certain goods in the USSR and the US in 1955, measured in physical units.

		USSR				US
		1950	1955	1960	1972	1955
Coal	mn tons	261	391	593	650-750	450
Petroleum	mn tons	38	71	135	350-400	335
Gas	1000 mn cubic metres	6	10	40	270-320	265
Electric power	1000 mn kwh	91	170	320	800-900	625
Steel	mn tons	27	45	68	100-120	106
Concrete	mn tons	11	23	55	90-100	51
Woollen fabrics	mn metres	155	251	363	550-650	300
Footwear	mn pairs	226	299	455	600-700	634
Sugar	mn tons	2,5	3,4	6,5	9-10	2,1

- 3.3. The production development in the United States and the USSR in 1940 is shown (see appendix) in diagrams in semilogarithmic scale, i.e. a scale which shows a development with a constant rate of growth as a straight line whose slope equals the annual per cent. growth.

Besides the goods stated in the tables a calculation is also included in the diagrams of the total output of energy resources (i.e. fuel and hydro-electric power) converted into tons of coal <sup>1)</sup>. The calculation is, of course, so rough that it must be taken with certain reservations. But even though the level arrived at may be a little incorrect (because too little allowance has been made for differences in quality and foreign trade) this picture of the development should be usable. It must, however, be emphasized that some resources of power are used not only for the production of power but also - and in an increasing degree - as raw materials in chemical industry.

- 1) The coefficients of conversion are:
- |                         |                    |
|-------------------------|--------------------|
| 1 ton of lignite        | = 0,4 tons of coal |
| 1 ton of crude oil      | = 1,4 " " "        |
| 1000 cubicmetres of gas | = 1,3 " " "        |
| 1000 kwh hydro power    | = 0,6 " " "        |

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This applies particularly to gas, but also to crude oil and coal. Finally it should be stressed that atomic power is not included because it will make little impact on the general trend within these first 15 years, although it will probably come to play a not inconsiderable part in areas deficient in power resources.

- 3.4. It appears from the diagrams how the rate of growth in the USSR (represented by the slope of the curves) is everywhere to be reduced more or less. Further, it is a striking feature that the development of production in the 6th Five-year Plan appears as a simple extrapolation of the postwar development. If this is not accidental, it seems no wonder that a planning which follows such simple principles collapses the moment the problems become more complicated.

In the diagrams is further included the development of production in the United States, by way of comparison. However, it should be stressed that the comparison must be made with certain reservations seeing that foreign trade in the case of certain of the goods (especially the oil import, between 35 and 40 million tons, representing 10-15 per cent. of production and the import of sugar, about 3-5 million tons against a production of 2-2,5 million tons) plays a certain part in the United States. Further, it should be noted that it is the production total which is shown in the diagrams. Krushchew's aim, however, is to catch up with the leading capitalist states in production per capita, a circumstance which is nevertheless of no great importance in this connexion seeing that to-day the United States has a population of about 170 million and the USSR some 200 million and the population of the two countries will approach each other in the coming 15-20 years (to a level of about 230-40 million inhabitants).

With regard to the possibility of attaining the targets in the course of the 15 years suggested, suffice it to say that even if the Plan is realized we must experience a depression in the West far exceeding that of the thirties in extent and duration if the growth is to be kept at so low a level as Krushchew seems to assume. Or, in other words, the USSR has to-day reached the production level which existed in the United States 15-20 years ago, but still only as far as some goods are concerned.

- 3.5. When, in the diagrams, it has been found best to show the development since 1940, the purpose is to illustrate the characteristic difference in the influence of the war on production in the USSR and the US and the consequent decisive divergencies in the basis of the postwar economic growth. The high rates of growth in the USSR in the period 1945-50 and - in a less degree - in the period 1950-55 must be viewed in the light, for one thing, of the rebuilding taking place (not only up to the 1940 level but also to the level reached by the areas not afflicted by war.

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4. How can this reduction in the rate of growth be interpreted?

- 4.1. A Soviet long-term plan must be regarded as a prognosis of a long-term development determined by economic, technical, political, and cultural factors and by the economic policy to be followed (in year-to-year plans, legal provisions etc.). The long-term plan (covering periods of 5 or - as is now beginning to be the rule - 15 years) is thus neither a plan in the narrow sense or mere conjecture but a manifesto laying out the main lines of the economic policy to be adopted.

The basis for an evaluation of a manifesto is thus an enquiry into

1. the economic conditions determining what possibilities there are and will be for the future development.
  2. what motives (targets) underlie the political decisions.
- 4.2. ad 1. An exhaustive analysis of this question must, on the other hand, clarify what has determined the development until the present time, and, on the other, enquire whether these external conditions will be found to exist in the future.

The result of such an analysis will be the conclusion that not all the economic conditions which have determined the relatively (viz. compared with the US) rapid economic growth of the USSR, will continue to prevail without it being apparent that these facts can be the cause of a sudden and steep fall in the rate of growth in precisely the year 1956-57.

While, in the case of all previous Five-year Plans, it has been possible to keep to the announced programmes so closely that it has been necessary to make only minor alterations of the plans (the prognoses) without reshaping the main outlines, this has proved unfeasible with regard to the last Five-year Plan (56-60).

The chief reason for this is that under the previous plans it is mainly the production of finished goods that has failed, a circumstance which affects only consumption and the free kolhoz market but not production otherwise, or employment. Under the Five-year Plan now published, however, it is first of all the production of certain raw materials and production goods which has failed (one major reason being fluctuations in the demand) thus causing bottlenecks in production and employment in a great many domains.

It is obvious that so serious a flaw in the planning of investments as there seems to have been must have proved far more difficult to make good within the main lines of the original plan than any similar shortcomings in previous Five-year Plans. However, it is at least conceivable that something more than the mere force of circumstances has prompted the decision to abandon the Five-year Plan entirely and replace it by a Seven-year Plan. These other motives might be purely political ones.

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- 4.3. ad 2. Although the motives underlying Kremlin's decisions can only be guessed at it would seem possible at least to define, as a basic hypothesis, the following three "common denominators" for the princi-

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pal alternative categories of motives:

- A. The greatest possible growth "for the growth's sake" - that is to say, a not unprecedented confusion of what is generally ends and means.
- B. The greatest possible military potential (in a wide sense) - in which is included a certain living standard with a view to securing the endurance of the soldiers and civilians.
- C. The greatest possible economic potential (and preferably greater than that of the United States), but a military potential just sufficient to maintain the balance of power in Russia's favour.

Now the question arises whether it is possible on the basis of the recent development to say something about the probability of either A, B or C.

While, formerly, A could not be entirely repudiated, little now points to this rather "naive" contingency.

It has not been possible to make an entirely clear and convincing distinction between A and B in as much as the development until 1956 may be said to have been consistent with both B and C. For both require an intense economic growth in the production of a) raw materials, b) power, and c) investment goods. So long as it is only a matter of developing these three basic sectors as much as possible the growth in each of these sectors will be mainly determined by the growth in the two others - the growth in the remaining sectors being negligible. Some time - the question is merely when - these basic sectors will be relatively so well developed that the sectors more peculiar to B and C may undergo a determined development.

When this juncture is arrived at - and there are indications that this has happened now - the development will be a different one in each of the three difference basic sectors mentioned above, the growth being no longer in the main defined by the growing demands of the other basic sectors but the demand issuing from the production of finished goods for consumption and military purposes respectively.

It is, therefore, of great importance to keep in mind, in trying to understand the background of the reduction of the rate of growth in the USSR, that in every modern community (with monetary economy etc.) it is not first of all the total demand (i.e. for both consumption and investment goods as well as raw materials, semi-manufactured goods, power, transport etc.), which determines the size of production (and consequently of the capital apparatus). It is, thus, not unlikely that the technical possibilities for production in the USSR are or will, in the near future, be present in such a degree that they no longer constitute any serious hindrance for the continued economic growth, which will therefor in future be determined far more by the development in demand, that is to say eventually by the rise in the standard of living and/or the defense costs.

Consequently, it is not definitely surprising that the pace is gradually slackened in the basic sectors to the extent to which it is determined by the almost necessarily and in any case actually, slower rate of growth in the other sectors. However, the rate of growth will of course still be comparatively greatest in the basic sectors.

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- 4.5. The figures hitherto published, however, are too few at present to throw sufficient light on the problem in hand. But there is reason to suppose that, on the ground of the distribution of investments in the new Seven-year Plan compared with the production of the principal raw materials and power, it should be possible to form a certain idea of the Russian economy which may more or less render probable either B or C.

5. Conclusion.

- 5.1. Until the forthcoming Seven-year Plan has been published it will not, unfortunately, be possible to say to what extent the slackening of the rate of growth in the basic industries (not least the power industry) considered in relation to the reorganization and the plans for an improvement of the standard of living should be taken to be a more or less fundamental change in Russian economic policy or merely a rather natural development stemming from the results already achieved in production and allocation.

Yet it may safely be said that although the rate of growth in the production of some important raw materials and power is decreasing, this circumstance need not invariably be tantamount to a falling-off in the rate of growth of the total industrial output, let alone in the national income (in the western sense, i.e. including the "unproductive" sectors), but is rather a manifestation of the fact that the growth in the basic sectors is now in a higher degree determined directly by the growth of the other sectors, or, ultimately, by final demand, i.e. consumption, military expenditure and capital export.

- 5.2. Finally, it should be emphasized that some factors which have been operative in bringing the hitherto high rates of growth, viz. the large unexploited resources of manpower, raw materials and energy will gradually, as they are put into use, cease to place the USSR at an advantage over the West. Likewise, the advantage enjoyed by Russia in being able to make use of already existing technical inventions is, of course, limited in time, so that the juncture is drawing near at which possible higher rates of growth in East than in West will depend entirely or at least chiefly, on the different political systems - without it being by any means suggested that this stage has in actual fact been reached. Further there is good reason to believe that it will not be reached all at once but gradatim, it being apparent that the Russians, in their research, employ what may be termed a division of labour with the West - to the advantage, that is, of Russia exclusively. Their policy is to concentrate the research on certain limited domains, while in others western results must be drawn upon (whether these are applicable to Russian conditions or not). In this way possibilities for gradually surpassing the West are opened up - not least because Russians scientists seem, in accordance with their mathematical traditions, to work with mathematical models far more than empirically through the method of trial and error, in contradistinction to their American counterparts, who are, however, beginning to take up this line (cf. the slogans "operations research", "system analysis" etc.).

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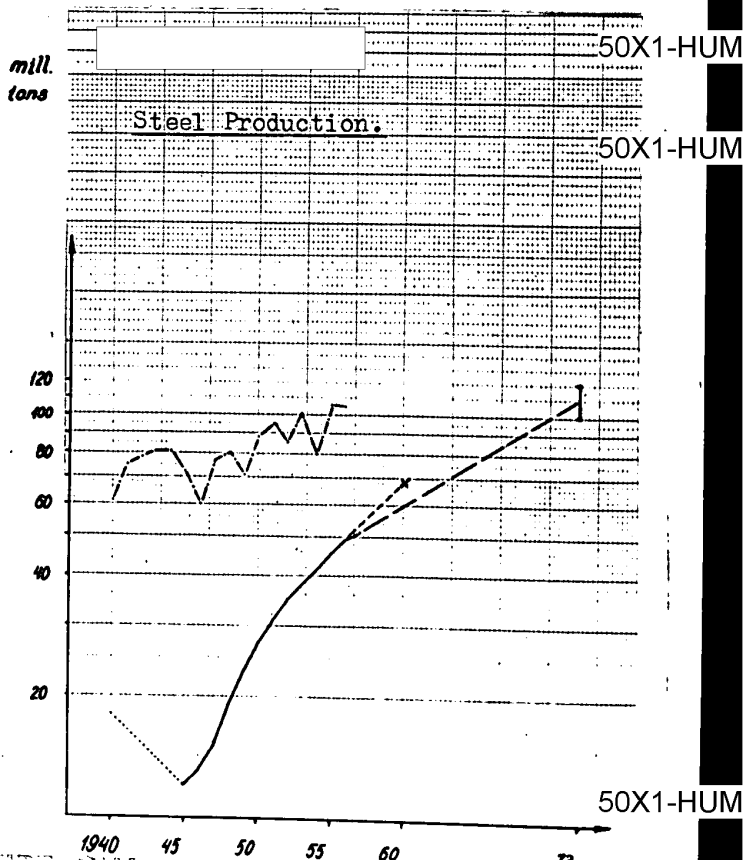
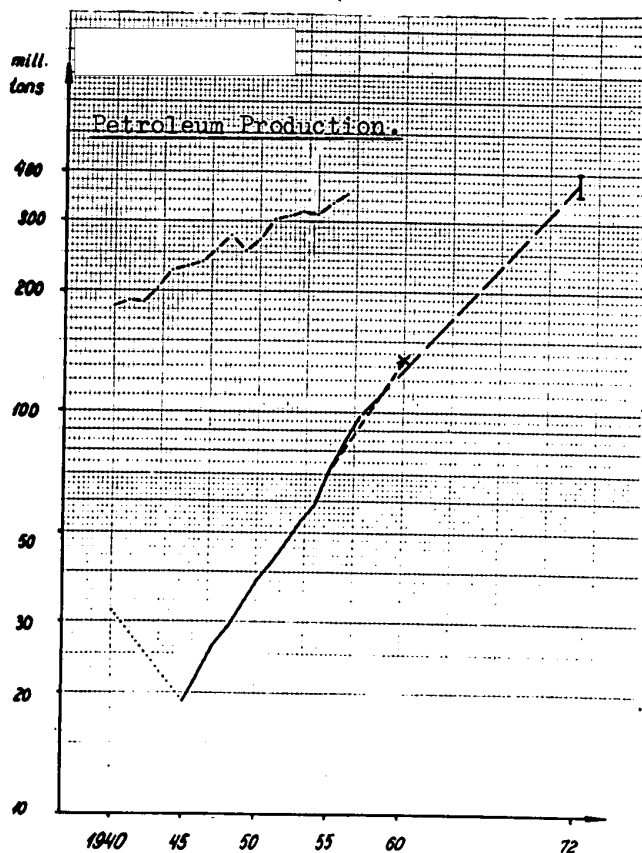
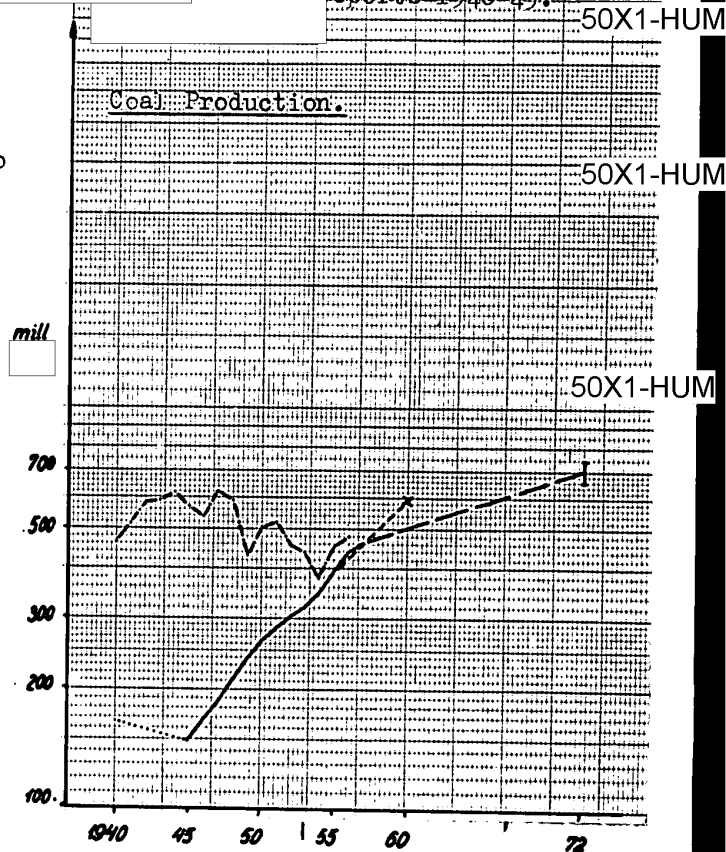
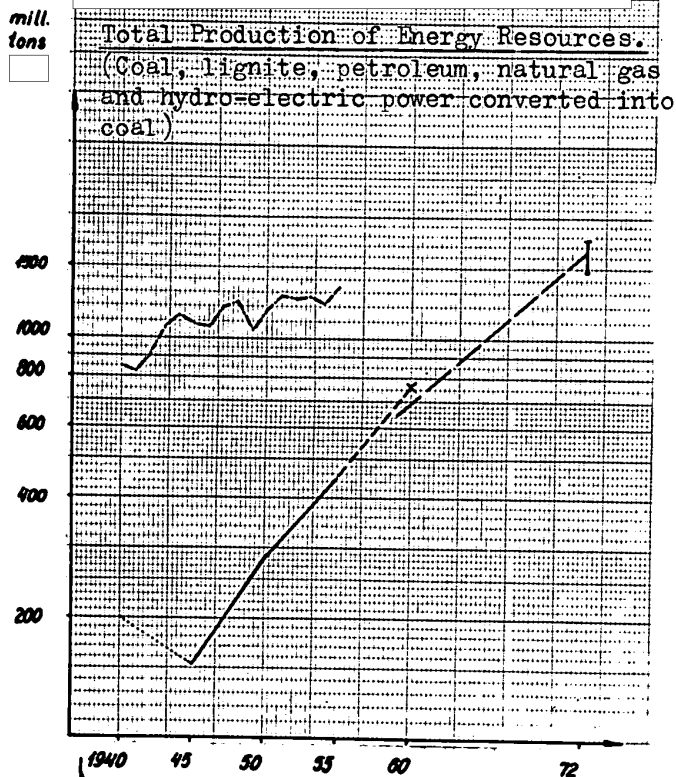
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- 5.3. To forestall any hasty conclusions that the "difficulties" with which the Russians are faced spell a weakening of their military potential, it must be explicitly stressed that the "difficulties" in question are not of such a nature or extent as to be bound to make an impact on the existing armaments industry or its development. Nor do the recent Sputnik sensations, it would seem, exactly suggest the "necessity" of changes in consequence of "unrealistic" planning.

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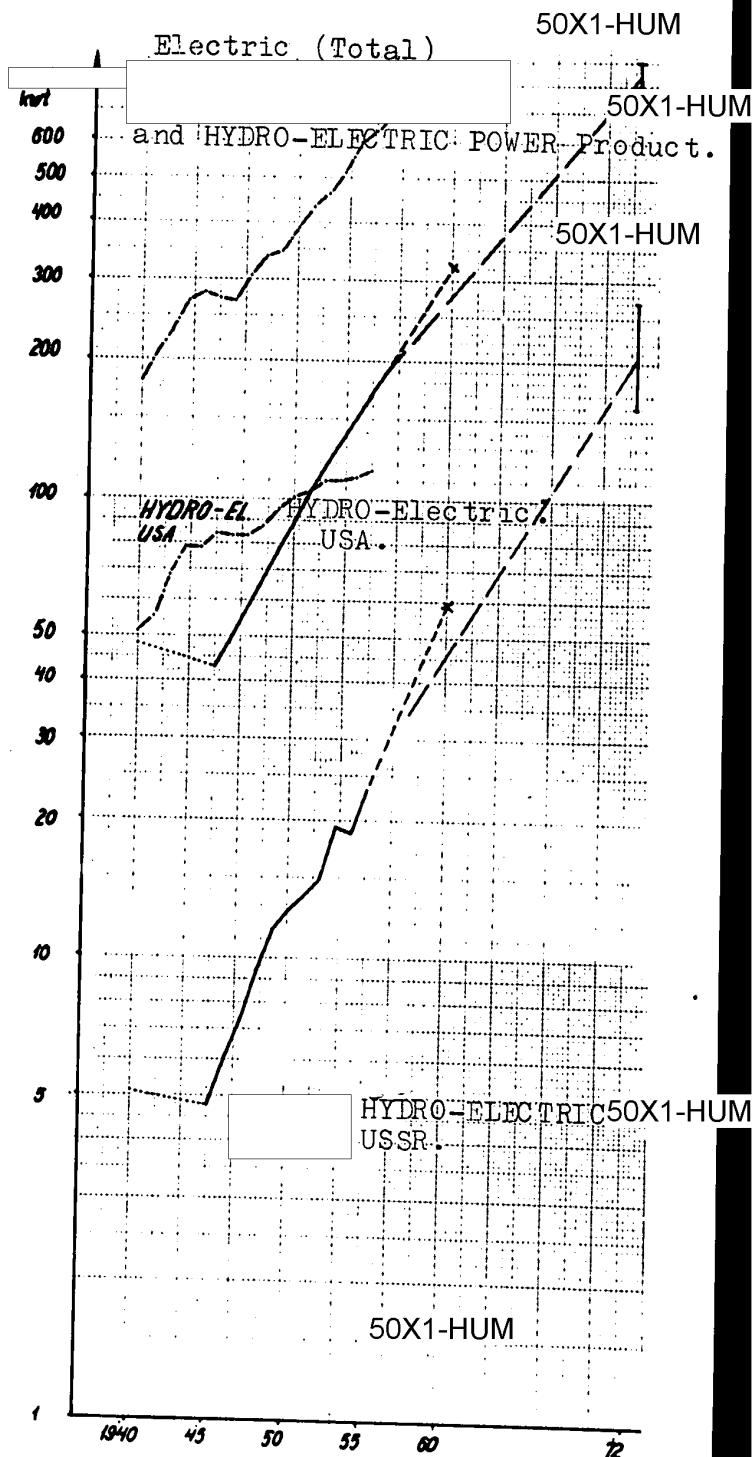
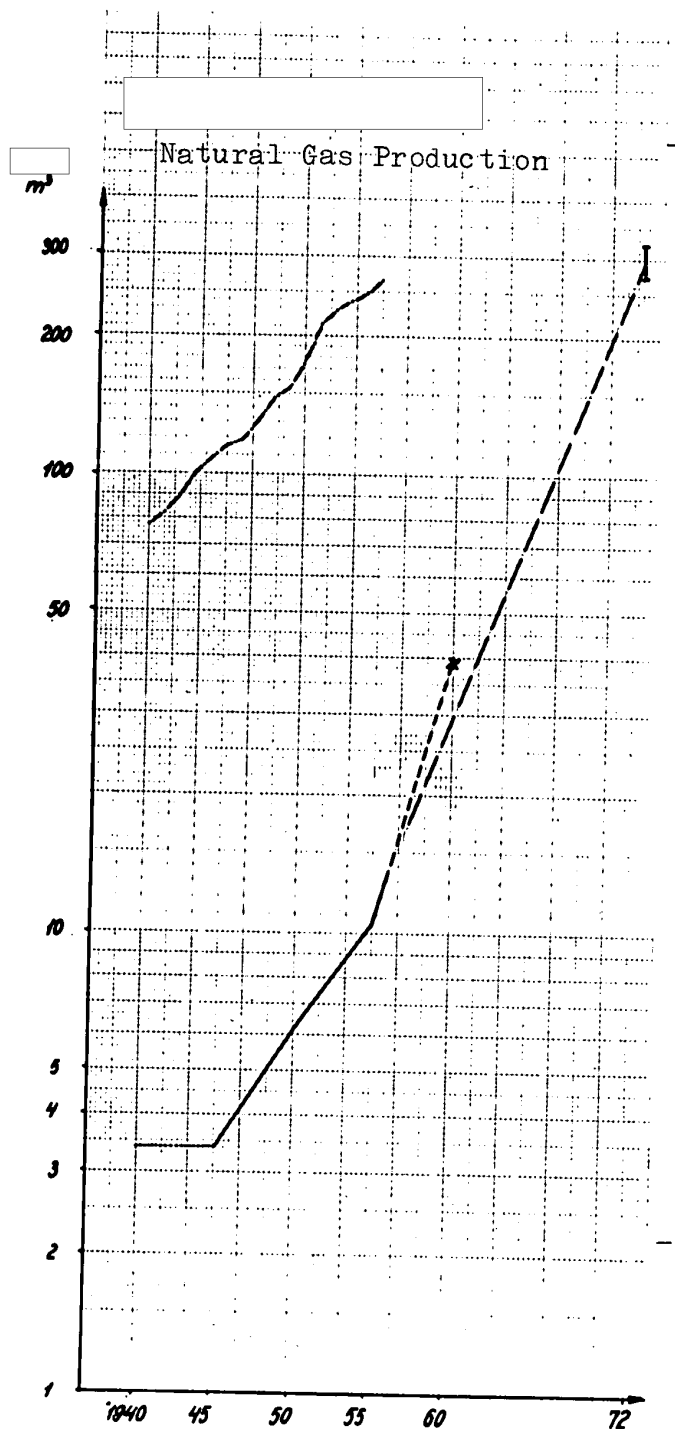
Krushchev's forecast for  
the period 1957-72.  
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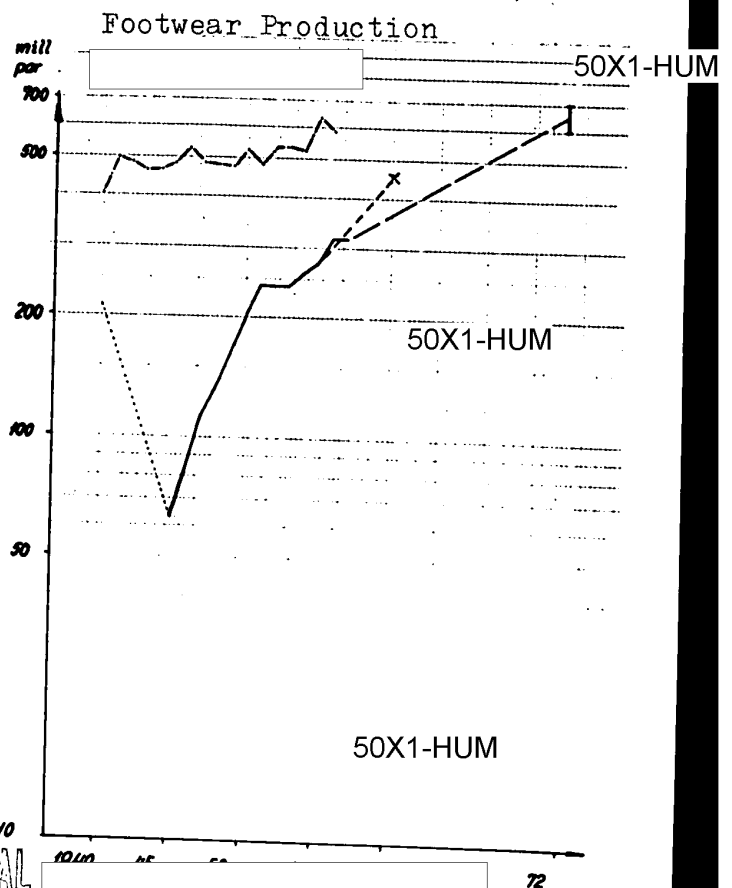
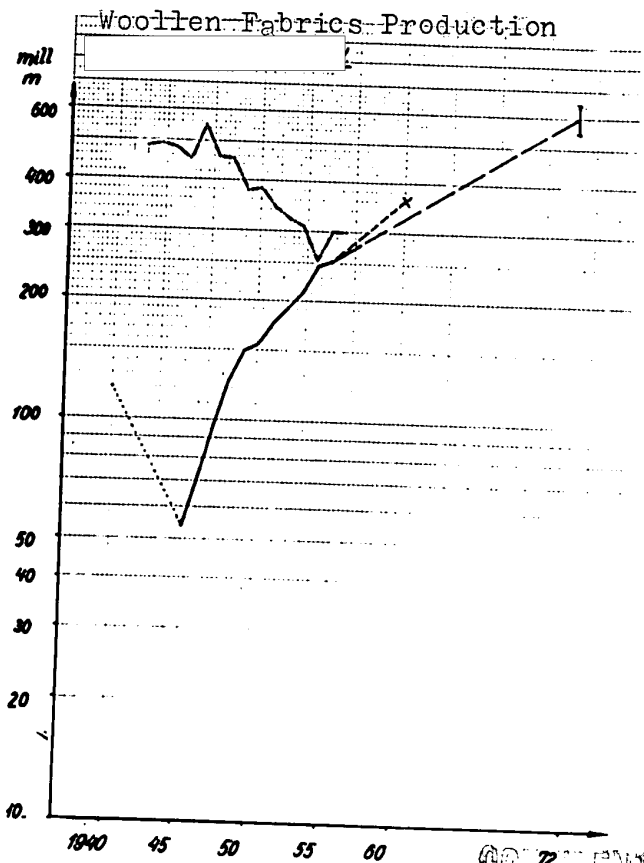
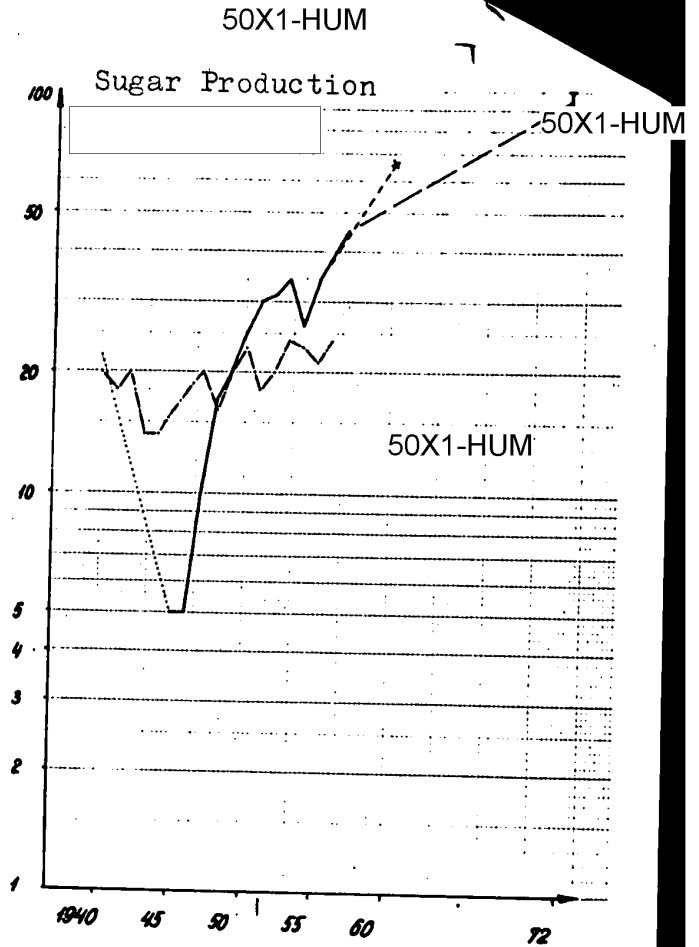
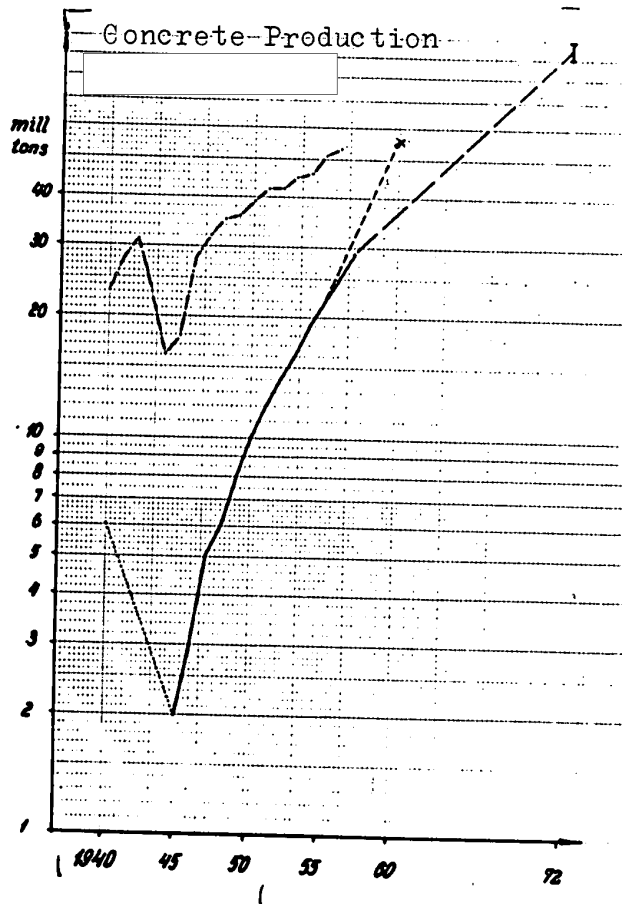
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